

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

RECEIVED
APR 16 4 31 PM '01
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

EXPERIMENTAL PRESORTED PRIORITY
MAIL RATE CATEGORIES, 2001

Docket No. MC2001-1

RESPONSES OF UNITED STATES POSTAL SERVICE
WITNESS SCHERER TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T1-7 THROUGH 11(a); T1-11(c) THROUGH 13)

The United States Postal Service hereby provides the response of witness Scherer to the following interrogatories of the Office of the Consumer Advocate filed on April 5, 2001: OCA/USPS-T1-7 through 11(a); T1-11(c) through 13.

Each interrogatory is stated verbatim and is followed by the response.

Interrogatory OCA/USPS-T1-11(b) has been redirected from witness Scherer to witness Kalenka for response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2998; Fax -5402
April 16, 2001

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-7. Please refer to your response to OCA/USPS-T1-1.

- a. Please confirm that the "density-based sequential sorting requirements" described in Section M120.2.7 of Domestic Mail Manual (DMM) 53 were specified by the Postal Service. If you do not confirm, please explain.
- b. Please confirm that the DMCS language establishing the Priority Mail presort discount eliminated in Docket No. R97-1 authorized the Postal Service to determine the machinability, addressing, and other preparation requirements. If you do not confirm, please explain.
- c. Please identify any differences between the DMCS language establishing the Priority Mail presort discount eliminated in Docket No. R97-1 and the DMCS language proposed for the Priority mail presort discount in this proceeding, and explain the significance of those differences.

RESPONSE:

- a. Confirmed.
- b. Confirmed. Referring to PRC Op. R90-1, Appendix III, "Recommended Changes in the Domestic Mail Classification Schedule" (which established the old Priority Mail presort discount), at page 4: §100.0232, "Presorted Priority Mail is Priority Mail which is presented in a single mailing of 300 or more pieces, properly prepared and presorted." However, it should be noted that the DMCS language recommended in Docket No. R90-1 was based on the classification proposal of USPS witness Lyons (USPS-T-18), whose testimony, at Workpaper III.C.1, page 11, specified the density-based sequential sorting requirements reflected in the Domestic Mail Manual implementing regulations.
- c. Any comparison of the former Priority Mail presort categories and those proposed here also should include reference to the Rate Schedules. Accordingly, Attachment B in the MC2001-1 Request, "Proposed Changes in the Rate Schedules," should be considered along with the proposed DMCS changes in Schedule A. Footnote 4 in Attachment B indicates that three presort levels –

RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES

ADC, 3-digit, and 5-digit – will be available to Priority Mailers participating in the proposed experiment. In contrast, the Priority Mail presort Rate Schedule footnote eliminated in Docket No. R97-1 established one discount irrespective of the level of presortation. The Postal Service concedes that the proposed experimental DMCS wording may not make explicitly clear a key distinction between the proposed presort discount and the presort discount eliminated in Docket No. R97-1: *choice* of any (or any two, or all three) of the three presort levels, regardless of densities at the other presort levels. However, the exclusion of such a requirement is apparent when one compares my testimony to that of witness Lyons from Docket No. R90-1.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-8. Please refer to your responses to OCA/USPS-T1-1 and OCA/USPS-T1-4 (a).

- a. In the last paragraph of your response to OCA/USPS-T1-1, you state, "This [density requirement at each presort level] was onerous compared to the current Priority Mail presort proposal, under which any of three presort levels – 5-digit, 3-digit or ADC – can be chosen as an option regardless of densities at the other two presort levels." Please confirm that neither the density requirement at each presort level nor the ability to choose any of three presort levels regardless of densities at the other two levels is specified in the DMCS language proposed for the Priority Mail presort discount in this proceeding. If you do not confirm, please explain.
- b. Please confirm that the quoted statement in part a. above describes, at least in part, make up requirements for the proposed Priority Mail presort discount. If you do not confirm, please explain.
- c. Please reconcile the quoted statement in part a. above with your response in OCA/USPS-T1-4 (a), where it states "Containerization and other 'make-up' requirements have not been finalized for the proposed Priority Mail presort discount."

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. The choice of three presort levels (5-digit, 3-digit, or ADC) is made clear in my testimony at page 2, lines 18-20 and page 3, line 1. While make-up requirements have not been finalized, it is known that the choice of presort level will not be contingent on minimum densities at – or any other features of – the other optional presort levels. Accordingly, no restrictions on the choice of three presort levels were mentioned in my testimony. This stands in contrast to witness Lyons's testimony in Docket No. R90-1, which explicitly stated the contingency of presort requirements on densities at other presort levels.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

Please note, too, that I did not try to define or in any way describe make-up requirements in the cited quote. I only made reference to them. I could not define or describe the make-up requirements because they had not been finalized. So there is no contradiction with my response to OCA/USPS-T1-4.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-9. Please refer to your response to OCA/USPS-T1-2.

- a. Since January 7, 2001, what is the proportion of flat- and parcel-shaped pieces weighing one pound or less in Priority Mail?
- b. For FY 2000, what was the proportion of flat- and parcel-shaped pieces weighing one pound or less in Priority Mail?
- c. For FY 2000, what was the proportion of flat- and parcel-shaped pieces weighing two pounds or less in Priority Mail?

RESPONSE:

As provided by USPS Statistical Programs, in the Finance Department:

- a. From January 7, 2001 to March 23, 2001, 52.36% flats, 47.64% parcels.
- b. 55.13% flats, 44.87% parcels.
- c. 43.12% flats, 56.88% parcels.

These data are based on RPW samples. It is assumed that all flat rate envelope mail is flat-shaped, which is not strictly true – it is possible to stuff a Priority Mail flat rate envelope to greater than .75 inches thick, and indeed, PERMIT data show a small amount of parcel-shaped Priority Mail flat rate envelopes. The data also exclude small amounts of letters and cards. The percentages – which sum to 100% – therefore only represent shares of total flat and parcel volume.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-10. Please refer to your response to OCA/USPS-T1-2.

- a. How many presort mailers took advantage of the Priority Mail presort discount eliminated in Docket No. R97-1?
- b. How many of the presort mailers 'had average realized revenue per piece' equal to the two-pound rate?

RESPONSE:

a. First off, I would like to correct the assertion in my response to OCA/USPS-T1-2 that average realized revenue per piece of \$2.89 necessarily indicates mail pieces exclusively two pounds and under. Such an average realized revenue per piece could also derive from flat rate envelopes, which can be above or below two pounds in weight.

According to the Corporate Business Customer Information System (CBCIS), which is believed to capture all but a small percentage of total USPS commercial (but not Retail) revenue, in Fiscal Year 1998, the last full year in which the old Priority Mail presort discount was in place, 217 customer locations took advantage of the discount. CBCIS is a system that *consolidates commercial mailing information from several different sources*, with 54% of its revenue coming from the Permit System.

b. CBCIS includes some mailers who presorted such small amounts, that due to rounding, total revenue divided by the total number of pieces is not precise enough to definitively indicate that average realized revenue per

RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES

piece was equal to \$2.89, the \$3.00 two-pound base rate (and flat rate envelope base rate) minus the \$0.11 presort discount. Among the largest 192 customer locations, for which I deemed the referenced ratio to be sufficiently precise to indicate that presorted mail was exclusively two pounds and under and/or in flat rate envelopes, 106 had average realized revenue equal to \$2.89. Of the remaining 25 customers locations, 16 had average realized revenue per piece sufficiently close to \$2.89 to suggest that their presorted mail was exclusively 2 pounds and under and/or in flat rate envelopes. The total number of presort customer locations that had averaged realized revenue per piece of \$2.89 is therefore estimated at 122.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-11. Please refer to your response to OCA/USPS-T1-2, where it states that "the majority of presort mailers...were exclusively mailing pieces 2 pounds and under."

- a. Please confirm that the total volume of Priority Mail utilizing the Priority Mail presort discount eliminated in Docket No. R97-1 consisted of pieces weighing 2 pounds or less. If you do not confirm, please explain and provide the average weight of Priority Mail utilizing the Priority Mail presort discount eliminated in Docket No. R97-1, the volume weighing 2 pounds or less, and the volume weighing more than 2 pounds.
- b. Please confirm that ADP, the only mailer with whom you have discussed the proposed Priority Mail presort discount, has a particular interest in a discount for the \$3.50 one-pound Priority Mail rate. If you do not confirm, please explain.
- c. Please confirm that ADP initiated discussions with the Postal Service seeking a Priority Mail presort discount. If you do not confirm, please explain.

RESPONSE:

- a. Not confirmed. As my response to OCA/USPS-T1-10 (b) indicates, some Priority Mail presort mailers in FY 1998 had average realized revenue per piece above the two-pound rate, indicating that they presorted at least some pieces weighing more than two pounds.

Weight distribution data for presorted Priority Mail in GFY 1998 can be found in the "Special Priority Report" attached to the Docket No. R2000-1 interrogatory response to UPS/USPS-T34-15, available at TR 7/2779. For weight-rated presorted Priority Mail volume in GFY 1998, 83.9% was two pounds or under and 16.1% was over two pounds. For flat rate envelope presorted Priority Mail volume in GFY 1998, 90.3% was two pounds or under and 9.7% was over two pounds. Altogether, 84.5% was two pounds or under and 15.5% was over two pounds. I am informed by the Statistical Programs unit of the Postal

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

Service's Finance Department that the average weight per presorted Priority Mail piece in GFY 1998 was 1.24 pounds. For comparison, I note from the Fiscal Year 1998 Cost and Revenue Analysis (CRA) report that the average weight per piece for all Priority Mail in that year was 1.69 pounds.

b. Redirected to Witness Kalenka.

c. The Postal Service has had discussions with ADP and other Priority Mail customers concerning elimination of the old presort discount ever since that elimination took place. These discussions have taken place between local or district postal personnel and customer representatives. They have also taken place between USPS headquarters personnel and customer representatives. Such discussions have arisen at scheduled meetings, from encounters at trade shows, etc. In this context, the Postal Service is unaware of the existence of any basis for establishing whether ADP or the Postal Service initiated discussions about a possible new Priority Mail presort discount.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-12. Please refer to your testimony at page 2, lines 19-20.

- a. Please confirm that the value of the proposed per-piece presort discounts to the mailer declines as the weight of the Priority Mail piece increases. If you do not confirm, please explain.
- b. Please confirm that the value of the proposed per-piece presort discounts provides a greater incentive for mailers to present lighter weight Priority Mail pieces, as compared to heavier weight pieces. If you do not confirm, please explain.

RESPONSE:

a. Not confirmed. The value of the discounts, which I construe as their monetary amounts (i.e., 12 cents for an ADC sort, 16 cents for a 3-digit sort, and 25 cents for a 5-digit sort), does not vary by weight level. This was stated in my testimony at page 20, lines 8-10: "The simplicity of the rate schedule is maintained because the discounts apply equally to all rates, regardless of weight or zone."

b. Not confirmed. I do not perceive that mailers will have a greater incentive, as a result of the proposed presort discount, to present lighter-weight Priority Mail pieces, as compared to heavier-weight pieces. This would imply, for example, that mailers will be motivated to change their mail mix by reducing the average size of their mail pieces, such as by breaking up heavier-weight packages to produce lighter-weight ones. I do not envision this taking place.

I do offer, however, that mailers of lighter-weight pieces will have a greater incentive to participate in the proposed Priority Mail presort discount than mailers of heavier-weight pieces. This is because mailers of lighter-weight pieces will realize greater percentage rate decreases from the proposed presort discounts because their base rates are lower.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-13. Please refer to Attachment A in your testimony.

- a. Please confirm that the per-piece revenue and attributable cost figures represent the average per-piece revenue and average per-piece attributable cost for Priority Mail. If you do not confirm, please explain.
- b. Please confirm that the majority of Priority Mail pieces utilizing the proposed Priority Mail presort discount will be "light weight" pieces; that is, pieces weighing 2 pounds or less, and likely to weigh one pound or less. If you do not confirm, please explain.
- c. Please confirm that more representative data for pieces utilizing the proposed Priority Mail presort discount would be the average per-piece revenue and average per-piece attributable cost for one-pound pieces. If you do not confirm, please explain.
- d. Please provide a version of Attachment A using revenues, costs, and new volumes based upon an assumption of one-pound pieces.

RESPONSE:

- a. Confirmed. The per-piece revenue in cell 1c and per-piece attributable cost in cell 1e represent averages for all Priority Mail.
- b. Not confirmed. An analysis of the Special Priority Report cited in my response to OCA/USPS-T1-11(a) reveals that in GFY 1998, 84.5% of presorted Priority Mail volume in GFY 1998 (the last full year in which the old Priority Mail presort discount was in place) was two pounds or under, and 48.0% was one pound or under. This does not suggest that the majority of presorted Priority Mail is "likely to weigh one pound or less."
- c. Given the finding – noted in my response to OCA/USPS-T1-11(a) – that in FY/GFY 1998, presorted Priority Mail was in fact lower-weight on average than Priority Mail overall, and the admission in my response to OCA/USPS-T1-12(b) that mailers of lighter-weight pieces will have a greater incentive to participate in the proposed presort discount than mailers of heavier-weight pieces, it is reasonable to conclude that mail pieces taking the proposed presort discount will

RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES

be lighter on average than the average for all Priority Mail. However, one pound appears to be too low an estimate of the average presorted Priority Mail piece. (Note the average of 1.24 pounds in GFY 1998.) The average weight of pieces that will take the proposed Priority Mail discount is probably somewhere between one pound and the average weight for all Priority Mail. (The latter was the implicit assumption in Attachment A to my testimony.) I am unable to confirm which of these poles – one pound or the average weight for all Priority Mail – is more representative of mail pieces that will take the proposed presort discount.

d. The requested version of Attachment A is attached. Absent knowledge of average attributable cost per piece for one-pound pieces, I made the simplifying assumption that it is in the same relation to average attributable cost per piece for all Priority Mail (\$2.823) as the relation of the one-pound base rate (\$3.50) to average revenue per piece for all Priority Mail (\$4.569).

DECLARATION

I, Thomas M. Scherer, hereby declare, under penalty of perjury, that the foregoing Postal Rate Commission Docket No. MC2001-1 interrogatory answers are true to the best of my information, knowledge and belief.

Thomas M. Scherer
Thomas M. Scherer

April 16, 2001
Date

Proposed Priority Mail Presort Discount: Estimated Volume and Financial Impacts Assuming One-Pound Pieces Only

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
		Priority Mail Volume (000)	Priority Mail Revenue		Priority Mail Attributable Cost		Priority Mail Contribution To Institutional Cost		Priority Mail Cost Coverage
			Total (\$000)	Per Piece	Total (\$000)	Per Piece	Total (\$000)	Per Piece	
(1)	Test Year, Before Experiment	1,243,245	\$5,680,265	\$ 4.569	\$3,509,283	\$ 2.823	\$2,170,982	\$ 1.746	161.9%
	Test Year, After Experiment								
	From Volume								
(2)	Not Discounted (Existing Volume Only)	1,224,596	\$5,614,995		\$3,468,959		\$2,146,036		
(3)	Discounted -- Existing Volume	18,649	\$ 61,976		\$ 34,891		\$ 27,085		
(4)	Discounted -- New Volume	385	\$ 1,281		\$ 721		\$ 560		
(5)	Total	1,243,630	\$5,678,251	\$ 4.566	\$3,504,571	\$ 2.818	\$2,173,680	\$ 1.748	
(6)	From Presort Fee	NA	\$1	NA	\$0	NA	\$1	NA	
(7)	Total	1,243,630	\$5,678,253	\$ 4.566	\$3,504,571	\$ 2.818	\$2,173,681	\$ 1.748	162.0%
(8)	Change in Test Year, After vs. Before Experiment	385	\$ (2,012)	\$ (0.003)	\$ (4,712)	\$ (0.005)	\$ 2,699	\$ 0.002	0.2%
	Inputs:								
(9)	Existing Volume That Will Take the Discount	1.5%							
(10)	Price Elasticity of Demand	-0.819							
	Per-Piece Cost Avoidances								
(11)	ADC	\$ 0.193							
(12)	3-Digit	\$ 0.261							
(13)	5-Digit	\$ 0.420							
	Presort Discounts (Per Piece)								
(14)	ADC	\$ 0.12							
(15)	3-Digit	\$ 0.16							
(16)	5-Digit	\$ 0.25							
(17)	Annual Presort Fee	\$125							
(18)	Number of Participating Mailers	10							

Attachment
to Response to
OCA/USPS-T2-13
page 1 of 2

Notes For Calculations

Source for 1a, 1b, 1d, 1f: Docket No. R2000-1, Appendix G, Schedule 1

$$1c = 1b/1a$$

$$1e = 1d/1a$$

$$1g = 1f/1a$$

$$1h = 1b/1d$$

$$2a = 1a \times (1 - 9a)$$

$$2b = 1b - 3b - (((14a + 15a + 16a)/3) \times 3a)$$

$$2d = 1d - 3d - (((11a + 12a + 13a)/3) \times 3a)$$

$$2f = 2b - 2d$$

$$3a = 1a \times 9a$$

$$3b = 3a \times (\$3.50 - ((14a + 15a + 16a)/3))$$

$$3d = 3a \times (((\$3.50/1c) \times 1e) - ((11a + 12a + 13a)/3))$$

$$3f = 3b - 3d$$

$$4a = 3a \times (((14a + 15a + 16a)/3)/\$3.50)/2 \times 10a$$

$$4b = 4a \times (\$3.50 - ((14a + 15a + 16a)/3))$$

$$4d = 4a \times ((1e \times (\$3.50/1c)) - ((11a + 12a + 13a)/3))$$

$$4f = 4b - 4d$$

$$5a, 5b, 5d, 5f = \text{Row 2} + \text{Row 3} + \text{Row 4}$$

$$5c = 5b/5a$$

$$5e = 5d/5a$$

$$5g = 5f/5a$$

$$6b = 17a \times 18a$$

$$6f = 6b - 6d$$

$$7a, 7b, 7d, 7f = \text{Row 5} + \text{Row 6}$$

$$7c = 7b/7a$$

$$7e = 7d/7a$$

$$7g = 7f/7a$$

$$7h = 7b/7d$$

$$\text{Row 8} = \text{Row 7} - \text{Row 1}$$

$$\text{Row 9: See Section II.E}$$

$$\text{Row 10 source: Docket No. R2000-1, USPS-T-8 at 21.}$$

$$\text{Rows 11-13: See Table 1 in Witness Levine's Testimony, USPS-T-2}$$

$$\text{Rows 14-16: See Section II.A}$$

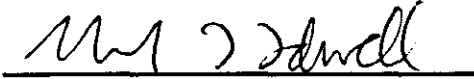
$$\text{Row 17: See Section II.E}$$

$$\text{Row 18: See Section II.B}$$

Attachment
to Response to
OCA/USPS-T 2-13
page 2 of 2

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

A handwritten signature in black ink, appearing to read "Michael T. Tidwell", written over a horizontal line.

Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
April 16, 2001